NOTES

CATTLE LOAN BANKS

Consumers desiring a reduction in the cost of food supplies will be interested in a study of the operations of cattle loan companies and in the development which these may reasonably attain as a result of the provision in the Federal Reserve Act for the rediscounting of agricultural paper.

The cattle loan company, commonly referred to as "cattle bank," is a middleman between borrowing cattle-owners and lending bank-managers. Its business methods and forms closely parallel those of real estate mortgage loan companies except for the fact that cattle loans are of shorter duration and secured by mortgages of the chattel variety. Cattle loan companies, incorporated under state charters, have been operating in such cities as Fort Worth, Denver, East St. Louis, St. Joseph, Portland, South St. Paul, Omaha (2), and Kansas City (3), some of them for over twelve years; and one is now being organized in Chicago. These companies have a paid-in capital stock ranging from $50,000 to $300,000, and are usually closely affiliated with a national or state bank, as are trust companies in the larger cities.

These companies are informed of desired loans through country bankers, or by receipt of direct applications, the latter usually from the larger "cattle-growers." In some cases the company on its own initiative urges cattlemen in whom it has particular confidence to undertake feeding operations at a time when the beef market offers a favorable opportunity for such production. In every case a salaried examiner of the company inspects the plant and herd of the cattle-grower and his personal capacity and integrity before the granting of a loan. And thereafter the examiner, on his regular circuit, maintains a continuous inspection and volunteers advice designed to protect the value of the security given for the loan. When a loan application has been acted upon favorably, a promissory note and chattel mortgage are taken.[1] The funds of the company then advanced to the borrowers may be utilized to buy more

[1] Canadian bankers are shut out from this form of lending, since a chattel mortgage is not valid in Canada unless possession of the goods is also passed to the mortgagee, and furthermore by their traditional unwillingness to participate in the loans of a party for whom they do not constitute the sole banking connection. In order to restock the Canadian farms that have been partially depleted as a result of our recent tariff act, Canadian bankers will have to secure some modification of existing statutes. Pending rural credit legislation will probably meet this need.

cattle, to pay outstanding debts such as those for feeding expense, or, as is often the case, to buy the very cattle which are pledged as security for the loan. In a few cases where the cattle-grower enjoys an exceptional credit, funds will be advanced for the full purchase price of a herd for seasonal feeding purposes, or to develop two-year-olds into finished four-year-old beef cattle. The loans granted are seldom less than 60 per cent of the known value of the cattle.

To secure a buyer for the note and mortgage is the second primary function of the cattle loan company. If the loan is a small one, usually $10,000, it may be sold entire, the chattel mortgage assigned and the note indorsed to the buyer. If the loan is a large one, of $50,000 to $100,000, it is necessary to subdivide it in order to provide a ready sale. The mortgage and note are assigned in parts of $5,000, $20,000, or other denominations, to suit the convenience of the buyers of the paper. In this case the assigned parts, since they are indorsed by the loan company, are equivalent to a "debenture" issue secured by a pledge of specified assets held by the company for the protection of the note-holders. The size of mortgage loan most frequently made is $10,000, while loans of $100,000 are exceptional.

The business of cattle loan companies approaches closely to the functions of the commercial paper broker. The cattle loan company has an advantage over the commercial paper broker in that the favorable location of the company—always at the receiving cattle-market of the district in which its loans are exclusively placed—enables it fully to protect its interest by claiming the proceeds of sales of mortgaged cattle. This is particularly true in the case of range cattle, which can be readily identified by the mortgaged brands.

To cover expenses of administration the cattle loan company secures for itself a part of the interest paid on the loan. The rate charged the borrower is usually determined by conditions in the locality where it is made, sometimes running as high as 10 per cent, and again, influenced by general rates for capital, falling as low as 7 per cent. From this gross interest charge a commission has to be given to the local banker who makes the loan, expenses of examination and management must be met, and an appropriation made to a contingency reserve fund to cover occasional losses incurred from the circumstance that the companies usually become surety, by indorsement, for the final payment of all the loans which they have placed with lenders. These deductions determine what may be safely paid to eastern purchasers of the paper, usually 5 or 6 per cent.

Holders of cattle paper have never suffered in times of financial panic from failure to pay at maturity. Cattle, like grain, are a cash commodity purchased by retailers and sold by them, largely for cash, to satisfy a relatively constant consuming demand. This characteristic is retained even in time of panic.

Maturities are usually six months for feeding purposes; and less often of two and one-half years for developing two-year-olds for market. This two and one-half year paper is occasionally converted into the six-month variety by the sale of notes running for six months, based upon the two-and-one-half year mortgage. These notes are taken up at maturity by the loan company and reissued or renewed for like succeeding periods until the original loan is repaid.

In the past this form of loan has not been so desirable as it will be in the near future. It has been a relatively long-term investment; and while perfectly liquid at maturity and enjoying a good rate of return, it has not possessed a sufficiently wide market to insure salability at those times when the demands of depositors and local customers for accommodation press in upon the investing bank. This difficulty will be fully corrected by the expected operations of the Federal Reserve Act. Eastern bankers possessing these six-month notes will probably find them readily rediscountable with the local federal reserve bank at any time up to maturity. And a considerable amount of two-and-one-half year notes may be held to advantage, since, if properly selected with successive maturities, one-fifth of their total amount will be immediately rediscountable when necessary.

By rendering this form of agricultural paper liquid before maturity the Federal Reserve Act will have become a most important influence for enlarging the amount of capital devoted to this branch of industry. Already eastern bankers have scouts touring the western states to study this form of banking with a view to investing several millions of dollars each. Interest rates upon these loans will unquestionably be reduced in time through such increased competition of lenders. The loan companies will hardly suffer, however. While charging the cattle-grower less, they will be enjoying a larger turnover and should welcome this new development. The four or five million dollars placed in such loans yearly by the average loan company, as at present constituted, is but a fraction of the loans that may be placed by them within a few years.

By reducing the interest cost charged to cattle-growers an important service will have been performed for the consumer. Such a reduction will increase, in the first instance, the cattleman's profit and induce him

to increase his holdings. The benefit of increased production at lowered expense should, in time, be passed on to the final consumer of beef.

This phase of the operations of the Federal Reserve Act will be of distinct benefit, and possibly also the least dangerous of all forms of legislation designed to assist American agriculture.

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WASHINGTON NOTES

THE RURAL CREDIT BILL

The second important banking measure of the Wilson administration was introduced in both Houses of Congress on May 12, by Representative Bulkley, as H. R. 16478, and by Senator Hollis as S. 5542. This measure is the result of a winter's series of hearings and investigations followed by elaborate discussion on the part of a joint subcommittee of the Senate and House committees on banking and currency. The work was undertaken at the instance of President Wilson himself and grew out of a promise made by him during the deliberations on the Federal Reserve Act in the House of Representatives nearly a year ago. While the Reserve Act was being debated in a House caucus, it was attempted to introduce into the measure some provisions designed to bring about especially favorable treatment for paper originating with farmers. These proposed changes were obnoxious to the President and his advisers, and in order to quiet the demand for them, a pledge was given that should they not be admitted, a farm-credit bill would be developed and would receive the support of the administration before the legislative body. The outcome was a request from President Wilson to the leaders of the two Houses early in the past winter to begin work, and as already pointed out, that work led up to the present measure. In the new bill, the basis for the proposed farm credits is afforded by a provision creating "national farm loan associations," which may be established practically anywhere throughout the United States by would-be incorporators. The establishment of the loan associations might take place through the payment of capital stock by outsiders in search merely of an investment, or might be effected through the action of would-be borrowers who desired to organize an association and at the same time to secure loans from it. Provision is made for twelve federal land banks to be created by the use of capital contributed either by outside investors